

Statement of Policy Regarding Specificity in Use of Proceeds

Amended April 27, 1997

- I. INTRODUCTION.** The North American Securities Administrators Association, Inc. ("NASAA") has determined that the following guideline regarding specificity in use of proceeds is consistent with public investor protection and is in the public interest. Nothing shall prevent the Securities Administrator ("Administrator") from applying different standards than those contained in this Statement of Policy.
- II.** A registration statement not complying with the requirements of this Statement of Policy may be denied registration by the Administrator.
- III.** The issuer's prospectus shall disclose, in a tabular form, for both the minimum and maximum amounts proposed, if applicable, the percentages and dollar amounts of the following:
 - A.** the estimated cash proceeds to be received by the issuer from the offering;
 - B.** the purposes for which the proceeds are to be used by the issuer;
 - C.** the amount to be used for each purpose; and
 - D.** the order or priority in which the proceeds will be used for the purposes stated;
- IV.** Additionally, the issuer's prospectus shall disclose:
 - A.** the amounts of any funds to be raised from other sources to achieve the purposes stated, whether the sources are firm or contingent and any contingencies;
 - B.** the sources of any such funds, whether the sources are firm or contingent and any contingencies;
 - C.** if any part of the proceeds is to be used to acquire any property (including goodwill) otherwise than in the ordinary course of business, the names and addresses of the vendors, the purchase price, the names of any persons who have received commissions in connection with the acquisition, and the amounts of any such commissions and any other expense in connection with the acquisition (including the cost of borrowing money to finance the acquisition); and
 - D.** the amount and basis for any proceeds used to pay indebtedness, including unpaid salaries, to Promoters (as defined in the Statement of Policy Regarding Loans and Other Material Affiliated Transactions).

- V.** The issuer normally may not reserve more than 15% of the proceeds for working capital or general corporate purposes (or for any other unspecified use). In the event the issuer's business plans require greater flexibility in the use of unspecified proceeds, the issuer must:
- A.** disclose all potential uses of such proceeds with qualifying language that such uses may be subject to change; and
 - B.** indicate the specific circumstances leading to reallocation and the potential areas of reallocation.
- VI.** The issuer must demonstrate that the offering proceeds, together with all other sources of financing currently available to the issuer, are sufficient to sustain the issuer's proposed activities. If such proceeds are insufficient to sustain the issuer's activities for at least 12 months following the offering, the issuer must provide the appropriate risk disclosure in the prospectus.
- VII.** In the event the offering is not firmly underwritten, the issuer must set a minimum amount of proceeds to be raised consistent with the business plan set forth in the prospectus. These proceeds must be impounded until such minimum amount is reached. In the event moneys are impounded in a non-interest bearing account, the prospectus must disclose this fact to investors. Additionally, the prospectus must disclose if officers, directors or other promoters have the right to purchase shares for the purpose of meeting the impound requirements.